



Sir M. van Wyck Jr.

Report and Recommendation of
The Railroad Commission
of the State of California

In the
**Matter of the Valuation
of the
Spring Valley Water Company's
Properties**

Desired by the City and County
of San Francisco for a
Municipal Water Supply

San Francisco, California
November 24, 1920

MAYOR ISSUES STATEMENT ON SPRING VALLEY PURCHASE

My Fellow Citizens:

After nearly a year of intensive study of the properties of the Spring Valley Water Company the State Railroad Commission has fixed their value at \$37,000,000. A special election will be held within a few months and the question of purchasing this system by the city will be submitted to the voters. The situation is one that, I believe, demands a statement of what the policy of the administration is to be regarding the desirability of acquiring these properties, as well as the continuance of work on the Hetch Hetchy project.

San Francisco's water situation is critical. Additional water is absolutely essential to guard against the peril of a water famine. The water supply must be immediately increased. If the present winter rains are not sufficient, emergency construction will have to be undertaken in order to bring in additional water within twelve months or the city will have to be placed upon water rations. All expedients, such as the metering of the city and other devices to conserve the present supply have been exhausted. The need can only be met by more water. All this can only be obtained by the immediate development of Spring Valley sources.

The Railroad Commission says: "The City has already delayed too long in making this purchase, which has meant a very considerable loss to the city through inadequate water development. There is no escape from the conclusion that the present supply of water is dangerously near the point of insufficiency. Immediate steps to increase the supply should be taken."

The responsibility for the city's water supply is now divided between the City and a private corporation and the State Railroad Commission points to this as an impossible and ruinous situation. Either the City or the company must become responsible for furnishing an adequate supply of water to the City at all times. The people are already committed to owning and operating their own municipal water system. The City's interests and all of its plans for the future require that the Spring Valley properties be immediately purchased. The acquirement and development of the Spring Valley system is entirely in line with the City's larger plans, for a future water supply.

Failure to acquire these properties will greatly embarrass and tend to defeat these plans. The City can finance the development of these properties at lower rates of interest than the present company, whose cost of refinancing and necessary development of its properties will be immediately shown in higher rates to the users of water. The Railroad Commission in its report has definitely assured us of this fact. Therefore, I unhesitatingly recommend as a wise and necessary public policy that the City acquire the Spring Valley properties at the valuation placed upon them by the Railroad Commission.

As found by the Railroad Commission, the contemplated development of the Alameda system will increase our water supply to an extent sufficient to meet the needs of a population in excess of 700,000.

The City has gone ahead in good faith with the construction of the mountain division of the Hetch Hetchy project, which it is expected will be completed within three years, and will yield upwards of 66,000 electric horsepower, sufficient to pay the interest and take care of all fixed operating and maintenance charges of that part of the project. The purchase of the Spring Valley properties will not prejudice the Hetch Hetchy project. The immediate purchase of these properties is imperative. When acquired they will constitute an integral part of the Hetch Hetchy system, which it will take at least ten years to complete.

The present gross revenues of the Spring Valley Water Company exceed \$4,000,000 a year. The net revenues exceed \$2,500,000 per year. This fact alone shows the wisdom of the proposed purchase and guarantees a handsome profit to the City over and above all expenses.

It is the City's determination to continue the construction of the Hetch Hetchy project from the mountain division to the City only at a rate which will bring the first installment of Hetch Hetchy water to San Francisco when the present sources of supply have been developed to the fullest possible extent. This will enable the City to fully meet the water requirements of San Francisco, protect and hold all of its water rights for the future and permit the construction of the full Hetch Hetchy project in an economic and symmetrical manner and with the least burden to the taxpayers.

The City Attorney advises me that a bond issue for the purpose of purchasing the Spring Valley can occur simultaneously with an amendment to the Charter, increasing the bond limit to cover this requirement.

This particular amendment to the Charter was defeated at the last election, according to the best information obtainable by me, through the uncertainty on the part of the voter as to any specific amount to which this enlargement of the limit would apply.

It would seem reasonable that those who favor this necessary purchase would approve a specific amendment, making the issue of bonds for its accomplishment lawful.

Very respectfully,

(Signed) JAMES ROLPH, JR.,

Mayor.

San Francisco, December 4, 1920.

SIDNEY M. van WYCK, Jr
519 California Street
San Francisco, Cal.

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THE RAILROAD COMMISSION
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MATTER OF THE VALUATION
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Properties**

Spring Valley Water Company,
Attention Mr. Sam P. Eastman, President,
375 Sutter Street,
San Francisco, California.

Board of Supervisors of the
City and County of San Francisco,
Attention Mr. Geo. Lull, City Attorney,
San Francisco, California.

Gentlemen :

In March, of this year, the Railroad Commission agreed to comply with the request of the City of San Francisco that we fix a fair and reasonable price which should be paid by the City for the acquisition of specified property belonging to the Spring Valley Water Company; the City to furnish a list specifically setting out the property desired.

The request of the City is contained in the Board of Supervisors' resolutions of January 7th, and of February 9, 1920. In the first of these resolutions the Board pledges itself to submit to the voters of the City and County of San Francisco

a proposition for the purchase, by the City, of the Spring Valley Water properties at a price to be ascertained, determined and recommended by the Railroad Commission, at a bond election to be called for such purpose as soon as practicable after the Railroad Commission shall have determined such price, provided the Spring Valley Water Company agrees, in advance of such determination, to sell at the price to be determined by the Commission.

Spring Valley Water Company, by resolution of its Board of Directors, dated February 11, 1920, agreed to submit to the stockholders of that corporation a proposition to sell to the City and County of San Francisco the properties selected at the price to be fixed by the Commission.

It was also the unanimous expression of the city officials, in conference with the Commission, that it would be very helpful if the Commission would express its opinion on the general question of the wisdom of the acquisition by the City of the specified properties of the Spring Valley Water Company, and the Commission was requested to express its views on any important factors which should weigh for or against such acquisition.

In making the necessary investigation and report, the Commission's departments were given liberty to consult freely with the engineers and experts of the City and of the Company.

The engineering department's report has been completed and, together with such other data as is available, has been given thoughtful consideration by the Commission. We are ready, at this time, to state our conclusions and it is the purpose of this communication to set forth, in a general way, the basis and reasons for these conclusions.

It should be made clear that, in acceding to the City's request and in announcing these conclusions and recommendations, the Commission is not acting in a strictly formal or judicial capacity. We have undertaken this task in a friendly spirit, intending to be helpful to the best interests of the City of San Francisco.

The Commission's present recommendations and conclusions result from an earnest attempt to find a fair basis for a fair price, both to the City and to the Company, for all of the property desired by the City, including physical property, structures, land, water rights, franchises, and the business now being done by the Company. It is our purpose to consider all elements, exaggerating none, and not ignoring or minimizing any.

1. Property desired by the City.

A list and description of the property desired by the City was furnished to the Commission by the city engineer, Mr. M. M. O'Shaughnessy. The list includes practically all of the lands, rights of way, water rights, structures, franchises, supplies, and materials on hand, complete records pertaining to the property and business of the Company, and there are excepted only certain parcels of land and certain buildings and structures.

2. The Fair Price.

The Commission's conclusion of a fair price is reached after giving consideration to what we believe are all of the important facts which should enter into this question. We have before us our engineering department's inventory of the property and the estimate of cost to reproduce the properties desired by the City. This estimate was not based on present 1920 prices for structures and plant, but on average prices for a six-year period from 1914 to 1920, a time which is considered a reasonable reconstruction period for this property. We have a very complete analysis of the present condition of the entire plant and of the amount of accrued depreciation. A careful appraisal of all the lands desired by the City has been made and the fair market value of these lands has been found.

In our effort to find a fair price, we have not been content to deal with the matter alone from the standpoint of reproduction cost less depreciation, but we have approached the problem from other angles as well.

Beginning with the figures agreed to by the City, and by the Company, in 1914 and 1915, we have proceeded on the assumption that the price agreed upon for the property then under consideration would today still be a fair price for the same property, after additional accrued depreciation is allowed for. To the then agreed figure we have added the actual cost of additional property since put in the public service by the Company, and have deducted property that since has been retired or gone out of existence. In this manner we have reached a figure after making all necessary adjustments, that can be compared with and, in a way, serve as a check upon the first figure based upon reproduction cost less depreciation. We have further gone into, and allowed for, the value of water and riparian rights, also of reservoir values, and the matters of the value of the franchises and business have been carefully considered.

It should also be stated that, in addition to the report of our engineers, there was available and there was considered by us, the inventory and valuation of the Company's property made in 1913 in the case of the Spring Valley Water Company vs. the City and County of San Francisco in the District Court of the United States. The report of the Master appointed by the Court in that case, and the federal decision of the federal judge, to the extent that that decision dealt with the matter of valuation, were also considered by the Commission.

It may be fairly stated that there has been as exhaustive an investigation of the properties of this Company as of any public utility in California and we feel that we have before us information in as great detail as might reasonably be obtained.

From all of this data, and from its own independent and best judgment, the Commission comes to the conclusion that the price for the property to be acquired, fair both to the City and to the Company, is \$37,000,000.00.

While it is true that in some degree the determination of a fair and equitable price for a property of this character is

a matter of opinion and judgment, still you may have the assurance that our conclusion is based upon a thorough knowledge of the facts and a judgment reached after a careful weighing of all of the matters which we consider important.

The Commission desires it understood that the figure recommended by us as a fair price cannot be considered in any sense as a "rate base," nor can it be taken as a finding in any proceeding affecting this property that might now be before the Commission or come before it in the future.

3. The question of the wisdom of the acquisition of the Spring Valley Water Company's properties by the City.

We are convinced that there can be no question of the wisdom on the part of the City of San Francisco of this purchase, if the properties can be secured at the price herein named.

The City has definitely, and we believe wisely, committed itself to a municipally owned water supply. This program, as a practical proposition, cannot satisfactorily be carried out unless the Spring Valley properties are first acquired. Theoretically it may seem possible to duplicate the water distribution system within the city limits, but an actual duplication is almost an impossibility. Not only is this true for the reason that, with the present system in place, the cost would be very large (much larger than the total of any reproduction cost estimate of the Spring Valley distributing system), but the legal complications, the delay and time required in the completion of a duplicate system, and the technical difficulties involved, to say nothing of the general destruction of the streets of the City and the interference with traffic, would make such a duplication a very serious undertaking. The waste resulting from such a duplication would be, in every sense of the word, unjustifiable.

The matter of the duplication of the distribution system is, however, not the most important or serious one. It is absolutely essential that the City, if it own its source of

water supply, be also in ownership and control of storage and general distribution reservoirs in the close neighborhood of the City. Such reservoirs will be required for the storage and distribution of water from Hetch Hetchy. The only suitable reservoirs actually in existence, together with potential reservoir sites, are the property of the Spring Valley Water Company.

If a condition could be imagined where the City could duplicate the Spring Valley distributing system, could find the necessary reservoir sites sufficiently close to the City, and did bring Hetch Hetchy water into San Francisco, there would then be two competing water systems serving San Francisco consumers. Even if city water were available in San Francisco, there is no legal power to compel discontinuance of service by Spring Valley Water Company to consumers. This could but result in wasteful competition and higher cost to the entire community.

The City would probably maintain the field in the end, but the Spring Valley Water Company could continue service for a long time, since it probably would be in a position to dispose of available excess water in the neighborhood of San Francisco on both sides of the Bay. The losses to both parties would progressively increase as the unreasonable and unintelligent struggle continued.

If the Spring Valley system is to be acquired by the City at all, it should be acquired now. In our opinion, the City has already delayed too long in making this purchase, and the failure of the bond election for this purpose, in 1914, has meant a very considerable loss to the City through inadequate water development, having in mind the future development of San Francisco and its continued growth. There is no escape from the conclusion that the present supply of water for the City of San Francisco is dangerously near the point of insufficiency. Immediate steps to increase the supply should be taken.

The water supply can be increased only in two ways: Either by the City doing its own development in the im-

mediate future, or by creating conditions where the Spring Valley Water Company can be put in position to proceed with such development. In view of existing conditions, it is not to be expected that the Company is ready or able to raise the necessary new capital for construction and extensions, and the City cannot afford to wait for an improvement of the urgent present water situation until the completion of the Hetch Hetchy system.

It has, for some time, been evident to this Commission that either the full responsibility of supplying water to the citizens of San Francisco must be assumed by this Company or by the City. If the City is not to purchase the Spring Valley properties, then it undoubtedly is the Company's duty to go forward and make the necessary investment to furnish an adequate water supply to this community for its present and future needs. If it be determined that the City does not purpose supplying its citizens with water at this time, then this Commission properly will insist that the Company take the full responsibility for this service and meet its obligation by the necessary capital expenditures coupled with adequate plans to operate for the future.

It will not do to say that this program of development may be entered upon by the Company and that the City, nevertheless, may purchase at any time it sees fit, because it must be remembered that whatever investment is made by the Company must be compensated for later by the City. In addition, the development undertaken by the Company will probably go forward in conflict with the plans which the City might adopt if it entered into this service.

We believe that from every standpoint a deliberate choice should now be made by the citizens of San Francisco, either for the continuance of water supply by the privately owned Company with the full responsibility placed upon that Company for such development as will safeguard the water needs of this community for the future (with which, of course, must go reasonable assurance that the investment made by the Company for this purpose will not be destroyed), or that the

City will promptly enter into possession and ownership of its own water supply and thereafter occupy the field completely. We consider a continuation of the present condition as a danger to the community as far as its water supply is concerned and we urge that a definite decision be reached at the earliest possible date on this important matter.

The argument is advanced that San Francisco will not, in any reasonable future, need the combined Spring Valley and Hetch Hetchy water supply. Aside from the fact that it will be years before Hetch Hetchy water can possibly be brought into San Francisco, there need be no apprehension of any permanent surplus of water anywhere within the state of California. The experience of the city of Los Angeles has shown that instead of there being a permanent surplus, even under the most favorable conditions, there is now a market for the water exceeding the supply.

The outlay on the part of the City for the purchase of the Spring Valley system need not result in an added tax burden on the people of San Francisco. With efficient operation and under reasonable water rates the purchase of the Spring Valley system will carry itself.

It may be assumed that the Calaveras Dam will be completed in the case of the purchase of the system by the City. The completion of the Calaveras reservoir will make available an additional supply of water sufficient to take care of the present urgent needs of the City. It is estimated that this addition to the Spring Valley plant will be sufficient to meet the demands of the City until the completion of the Hetch Hetchy system and supply the needs of a population in excess of 700,000.

The total acreage of the Spring Valley lands to be acquired is 61,735. This is an area over twice as great as the entire land area of the City and County of San Francisco. The City, we believe, is wise in acquiring all of this land. It is not to be inferred, however, that the total area can be used only for water purposes. A considerable portion is now

classed as non-operative for rate-making purposes. The City, in acquiring these lands, could resell a portion or they could be devoted to agricultural, park, building, and other purposes.

If the property is purchased as recommended by us, the element of severance damage will disappear. If, on the other hand, the Spring Valley were left with a portion of its property, which portion, however, could not be devoted to the purposes of a water utility, the matter of severance damage would unquestionably come up and assume large proportions in terms of money.

**4. Terms and conditions of proposed acquisition of property
and taking over of operating control by City.**

We have not attempted to go into the matter of definite terms and conditions under which this property should be taken over by the City. If, in the working out of detailed arrangements for acquisition and operation, or in any other matter, this Commission can be of any service to the City, we at this time offer our continued friendly cooperation.

Yours very truly,

RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA,

(Signed) EDWIN O. EDGERTON,
" H. D. LOVELAND,
" FRANK R. DEVLIN,
" H. W. BRANDIGE,
" IRVING MARTIN,

Commissioners.









